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C O N F I D E N T I A L SECTION 02 OF 02 RIYADH 000916

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SUBJECT: THE SAUDI SUPREME ECONOMIC COUNCIL

* Missing Section 001 *

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16. (C) On subsidies, Al-Saleh jumped into a detailed discussion, clearly very engaged by this issue. He said the government had a 12-year plan to both reduce and target subsidies. The SAG has already developed a number of targeted subsidies to encourage water conservation, including an increase in the subsidy paid to date growers with less than 300 palm trees and who install drip irrigation. The Ministry of Agriculture was planning to subsidize refrigeration trucks to transport mangos from farms in Jizan (on the Red Sea coast near Yemen) to the large markets in Riyadh and Jeddah, cutting out middlemen and enabling growers to sell in higher priced markets, thus increasing farmers' profits. When asked about electricity subsidies (Saudis are among the highest electricity consumers in the world on a per capita basis -- and pay very little for it), Al-Saleh opined that subsidies should be restructured to focus more on "certain income groups" (read: the poor). More research should be done before new subsidies were implemented to ensure they were properly targeted and did not have unintended consequences, he said.

UPBEAT ON THE SAUDI ECONOMY

17. (C) Discussing the Saudi economy as a whole, Al-Saleh was upbeat, saying there were three important developments that should be taken into consideration. First, because the Saudi stock market had crashed in 2006 after being driven sky-high by a speculative bubble (price - earnings ratios reached 300 in some cases), recent volatility in the market was only affecting a much smaller part of the population as most had already exited the market. Second, annual five percent increases in government salaries (the government sector employs a significant majority of Saudi nationals), coupled with slower inflation, has increased Saudis' purchasing power, resulting in increased consumer spending (Note: This does not hold up to scrutiny. According to official figures, inflation in the Kingdom has been above five percent every month since August 2007.) And third, lower costs for infrastructure projects realized through less expensive construction materials and cheaper labor (in light of a sudden easing of demand in nearby markets like the UAE) has resulted in 30 - 40 percent cost savings and faster completion times for the projects.

MEETING LOCATION

18. (SBU) The Charge's meeting with Al-Saleh took place at the Al-Yamama palace, an extensive complex south of the Diplomatic Quarter housing offices of the SEC, the Petroleum Council, and the Royal Court. The King also has an office in the same palace.

COMMENT

19. (C) Comment: The SEC plays an important role in coordinating the Kingdom's economic policy, but it is still unclear how much power it wields in its own right. While Al-Saleh is an intelligent and engaging interlocutor, who by his own admission is working hard to bring himself up to speed on the issues his position deals with, it is unlikely the new SEC secretary general will have the clout to challenge established economic heavyweights such as Finance Minister Ibrahim Al-Assaf or central bank governor Muhammed Al-Jasser anytime soon, should disagreements arise. End comment.
ERDMAN